

**Incentive
Marketing**

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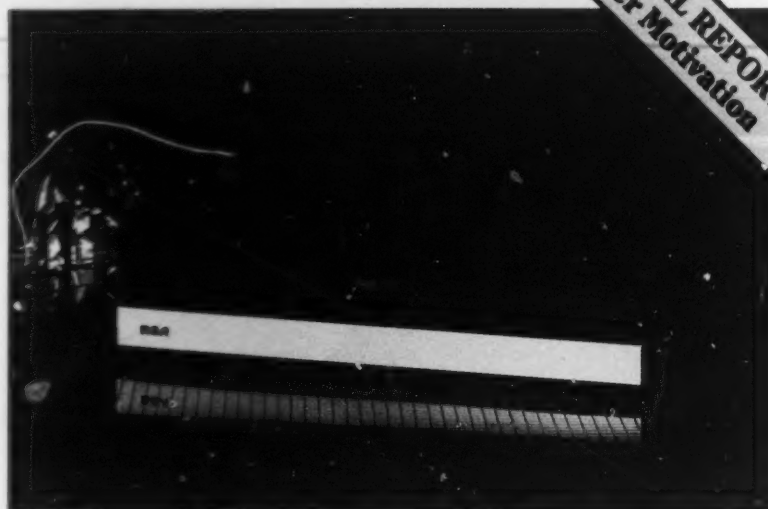
APRIL 1985

**Dealer
Merchandising:
The
Double-Barreled
Approach**

Destination: San Diego

April 1985

IM explores the sights and sounds of the consumer electronics marketplace, with tips from some insiders on what to look for. See page 76 for details.



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With spending growth forecast at 10.4 percent, marketers' 1985 dealer incentive outlays should surpass \$2.1 billion.

Dealer Incentives

All indicators are up for dealer incentives—except for bottom-line costs.

After several depressed years, 1984 brought an upswing in both merchandise and travel offerings, and 1985 appears to be staying on course.

That's the consensus of dealer incentive users in IM's latest survey of their practices and performance. The study shows that:

- 1985 sales gains through dealer promotion average 18.7 percent, somewhat above last year's level, which was the best result since 1979.

- Program costs in relation to incremental sales gains remain at a median of 10 percent, the same as last year's, and the best record of this decade.

- Dealer participation is at a high level, following several slump years.

- Last year's estimated expenditure total increased by 12.2 percent from 1983, to pass the \$2-billion mark for the first time. User estimates for this year are not far behind, up 10.4 percent, and indicate significant real growth in a period of lowered inflation.

- Almost two-thirds of the marketers responding to the survey said they are increasing their expenditures for dealer incentives this year.

Real dealer incentive expenditures declined considerably in 1982 and 1983, with inflation taken into account. But 1984 showed a turn-

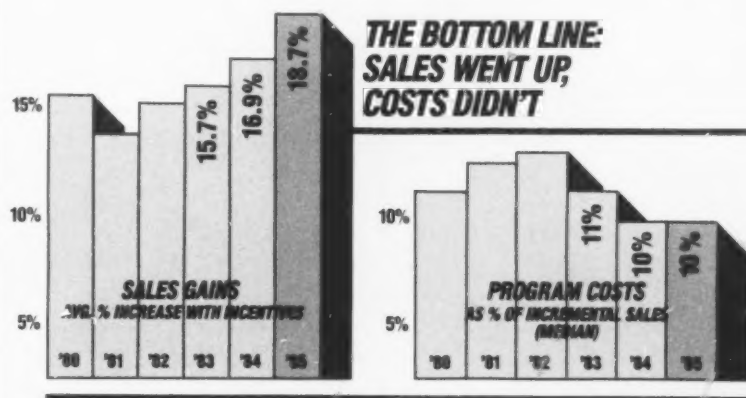
around in marketers' response to a recovering economy—an increase of 12.2 percent, or about \$222.6 million—to the new high estimate for the year of \$2.04 billion. Travel usage expanded a bit more than merchandise, accounting for 34 percent of the dealer total.

The automotive industries led the growth last year, as vehicle manufacturers boosted dealer expenditures by 17.2 percent, and the parts, tires and accessories suppliers raised outlays 19.2 percent over 1983 levels. Since they ranked as the top two user industries, their resurgence contributed significantly to total growth.

Insurance companies, though not in the top 10 here, are big users and added \$7 million to rank third in growth, with a 13.7-percent rate. Even the beleaguered farm equipment industry increased its allocations by 9.5 percent, the lowest gain among the biggest users.

Approximately the same pattern of increased spending is seen in the latest special survey. A total of 194 companies supplied usable reports in time to be tabulated; they submitted their data and projections for 1985 activity in February and March. Dollar expenditures and budgets for both 1984 and 1985 were supplied by 168 of these firms, and their forecasts are the basis of the estimates of growth this year, which predict spending 10.2 percent above dealer incentive efforts in 1984.

Who are these middlemen the marketers seek to motivate? Almost half (49 percent) of the respondents direct their programs toward wholesalers or distributors. Most companies aim incentives at more than one variety of dealer—about 1.7 types on the average in this survey. This is how their activity is distributed:



Sales gains through dealer promotion are averaging nearly 19 percent this year

- 49% Wholesalers & distributors
- 28% Commercial or industrial dealers
- 25% Specialty stores
- 19% Retail grocers
- 11% Drug stores
- 11% Service contractors
- 10% Variety or department stores
- 9% Service stations
- 9% Others (including insurance brokers, franchisees, beauty salons, lumber yards, travel agents, home builders, golf pros, feed stores, etc.)

People are in business to make money, and for that reason incoming sales dollar volume is a top consideration. So it is no surprise that "Increase Overall Volume" is always the most popular objective in the survey reports—checked by 80 percent or more of the executives in some past surveys. But what is done to bring in those increased dollars is what incentive programs are all about, and this is probably

why marketers in the current survey indicated an average of almost three objectives in their incentive plans. This diversity of goals also has been apparent in the drop of the "Increase Overall Volume" response to 70 percent a year ago and 69 percent in the present survey.

Introduction of a new product is a major event for any company—and a major area in which incentives can help. Supporting new product launches is the second most popular choice among objectives, mentioned by 42 percent. Balancing sales by moving a full line or pushing slow movers is the incentive job for 30 percent, but is tied for third place with improving morale and good will in the dealer community. The ranking of all nine listed objectives is shown by the chart on page 51.

The typical user of dealer incentives—using merchandise, travel or a combination of both—conducts two such promotions each year. That is the median number, although the average is more than three for

those using merchandise, since some use many short campaigns. The largest single group, more than a third of the companies, reported only one program a year.

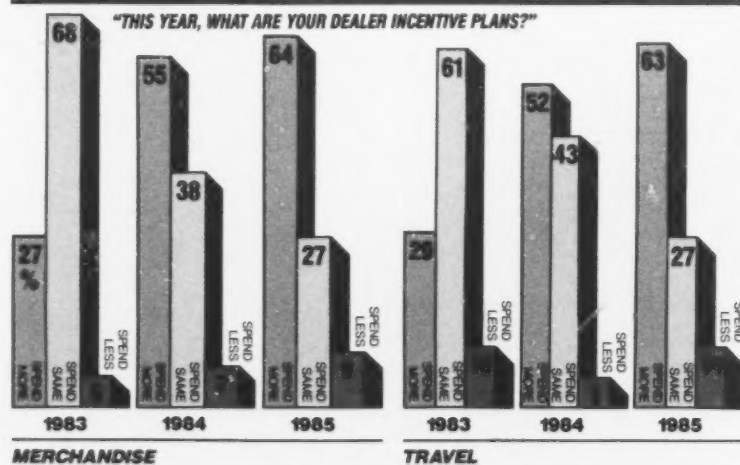
These promotions often are focused differently—which may be the impetus to run more than one. The options generally are to push a single product, a selected few or a full line. Although many marketers shift their practices to fit their needs, the dominant approach for 43 percent is to feature a group of selected items. Another 33 percent usually apply incentives to promote full lines, while the remaining 24 percent concentrate the effort on one product.

Given a specific objective, the definition of the target audience and the product mix to be emphasized, there is nothing left but to plan the incentive campaign. That, however, is a lengthy and difficult process. For example, the Cadillac division of the General Motors Corporation, Detroit, has a track record of incentive successes and enlists the help of a professional incentive house for its programs. Still, Cadillac's Robert Hickman says the most difficult part of the whole thing is planning "the logistics and details of a very complex program."

Part of the planning is the assignment of internal responsibilities for administrative details, and an Eastern bakery executive finds this the toughest part. The problem: "One person having the time out of a tight weekly schedule to dedicate proper follow-through. A to Z, including keeping everyone informed of progress." And, there is the question of top management approval and support, which many users point to as a major source of frustration. An automotive after-market executive with seven-figure incentive budgets says his greatest problem is "getting programs approved by management before it is too late for the program."

All of this explains why the planning of the dealer incentive promo-

LOOKING AHEAD . . .





tion usually takes longer than the campaign itself. With merchandise users, the average planning time is 15 weeks (the same as a year ago), whereas the promotion itself runs an average of 11 weeks—ranging from seven or eight weeks for a special deal or display premium offer to 15 for a contest or sweepstakes.

Travel users spend more than twice as much time on planning—an average of 31 weeks (up from 27 last year)—and their campaigns run 26 weeks, on the average. The latter figure also is longer than last year's estimate, by four weeks.

Because the reporting executive obviously does not devote full time to planning, the average travel user company constantly is in the planning process. There also is some overlap of programs, since 52 weeks in a year don't provide time for 62 weeks of planning. The typical merchandise user has a fair amount of slack time, spending a little more than half of the year involved in some aspect of incentive planning.

Between the planning and the campaign itself, there is an important date—the promotion launch. This depends upon many factors, including seasonality of product, fiscal years, competitive conditions, trade buying practices and so on. Generally the start for the largest number—28 percent—coincides with the beginning of the calendar year in January. This is partly attributable to the relatively large number of 52-week programs. Second choice is September, favored by 22 percent. April comes in at 16 percent, and four months are used for campaign kick-offs by 12 percent each: February, March, June and October.

The also-ran launch months are July (10 percent), August (9 percent), December (8 percent), May (7 percent) and November (5 percent). The total naturally far exceeds 100 percent, since many firms conduct more than one promotion a year.

Having decided what the com-

WHAT CAN DEALER INCENTIVES DO?

% OF RESPONDENTS REPLYING TO EACH OBJECTIVE

69%	INCREASE OVERALL VOLUME	26%	OFFSET COMPETITION
42%	INTRODUCE NEW PRODUCT	20%	BOLSTER SLOW SEASON
30%	MOVE FULL LINE OR SLOW ITEMS	20%	BUILD DEALER TRAFFIC
30%	IMPROVE MORALE/GOOD WILL	18%	SUPPORT CONSUMER PROMOTION
		12%	PREPARE FOR STRONG SEASON

pany wants to accomplish, how it intends to achieve its goals and when, the next steps usually break desired sales results and available funding into a specific budget, and select awards that will fit the audience, the goals and the budget.

Merchandise or travel? What kinds and how many items of merchandise? Group travel or individual trip awards? Many facts govern these decisions. For example, for a quick promotion of a few weeks, group travel probably doesn't make sense. If the big push is for a product assortment package that costs a few hundred dollars, a TV set or VCR won't work.

Finally, what sources do you select for awards, and how much programming assistance do you want from them? Each marketer writes his or her own answers to these questions, but an overview of respondents' consensus is depicted in "Types of Awards" on page 54.

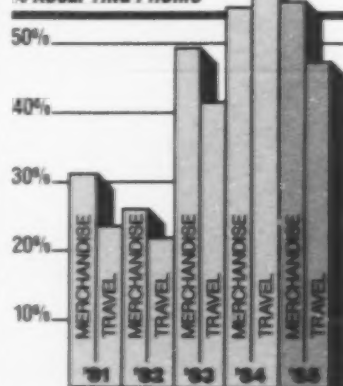
Timing of award delivery is a concern of virtually every user. "The quality of the premium house we deal with," says a Midwestern chemical manufacturer, "is very important! If they promise certain delivery dates and don't deliver, then I receive a lot of angry calls from people waiting for their premiums. That makes us look incapable of good service and defeats the purpose of giving premiums."

A seed distributor echoes the problems of supplier performance and, while this company uses a full-service incentive house for

major travel programs, the respondent says, "We usually end up doing the whole thing ourselves." But, regardless of the source, D. Lewis, vice president of sales, Cheney Company, a New Berlin, Wis. manufacturer, finds a problem in "being able to purchase premiums at a reasonable cost. With the number of discount houses, manufacturers' reps' costs are sometimes higher than outright purchase from a discount store."

The unit cost of awards in general has increased this year. While the average expenditure for travel dropped from 1984's \$1,890 to \$1,748 in 1985, the median rose from \$1,200 to \$1,500—so more people are paying more for trips. In merchandise, a reverse situation has occurred. From last year's average of \$125 (considerably lower than the

DEALER PARTICIPATION % ACCEPTING PROMO





Dealer promotion users report they are spending an average of 19 percent of their program budgets to communicate their aims to the trade.

year before), the figure in the current survey has climbed to \$162, but the median stayed at \$50, where it has held since 1981.

Communicating the details of a campaign to the trade takes a big part of the effort. This aspect requires a much larger budget than, for example, that of a sales incentive program (1984 average was 11 percent). This year dealer promotion users report they are spending an average of 19 percent of all incentive budget dollars for program promotion, with 81 percent for the actual purchase of awards. This represents a cutback from the similar 1984 estimate, which was 27 percent for promotion.

Seven principal routes are used to get the message through to the middlemen; these are the percentages of users choosing each:

- 64% Through company sales force
- 45% Direct mail
- 39% Dealer sales meetings
- 36% Literature with product
- 28% Trade shows

- 22% Through wholesalers or brokers
- 12% Trade publication advertising
- 3% Other promotion

The communication effort is not all directed outward. As W. A. Leslie, vice president and sales manager, Integrity Mutual Insurance Company, Appleton, Wis., puts it, a real problem lies in "corporate acceptance of the degree of effectiveness of incentive travel. Top management is in complete agreement; however, rank and file employees are sometimes resentful." And an Eastern carpet distributor complains of "salesmen's lack of effort during the purchase period to properly entice dealers to earn quota." This company does not run an incentive program for the salesmen, as many do to enhance their support.

Geography is the problem for S. P. Goodwin, vice president/general manager, STP International Inc., Boca Raton, Fla. "Worldwide reactions differ greatly. It is very difficult to design a program that the 100 or more distributors will accept

and still more difficult to design one that they will push through their dealers. Values and attitudes valid in one part of the world are often a joke in other markets."

"Keeping the excitement level up" poses a communications problem for Fred Hogg, president of Hogg & Davis Inc., a Long Beach, Calif. manufacturer. "Products are high-ticket, low-volume items that require months to move. We are now finding some dealers cutting incentive participation because too many manufacturers are offering (travel) programs."

In the end, evaluating the results of the campaign is the greatest challenge for many marketers. A Midwestern food firm, offering mostly merchandise incentives to wholesalers, estimates sales gains on a par with most. But the executive responsible reflects the concern of many: "We have run the same program the last five years. How do you evaluate what sales might have been without the program?"

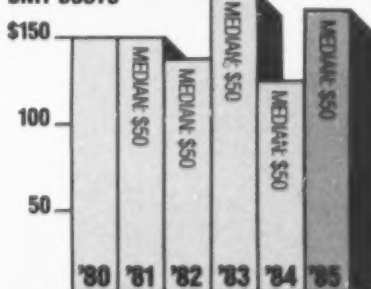
Adler-Royal Business Machines Inc., Union, N.J., offers two major trips a year "to help us make the sales and profit quota for the year," says James Lee, vice president. "The trips are also designed to build dealer loyalty and improve morale and good will. The most difficult problem is evaluating the actual value of sales developed by the use of the incentive trips."

Recognizing the need for deeper evaluation, J. Flannery, advertising manager, Kardex Systems Inc., Marietta, Ohio, notes, "It is difficult to get funds for measuring how an incentive program performed against specific and measurable objectives. Without measurement, you can only guess that your budget is being spent as effectively as possible."

Nevertheless, the great majority participating in the surveys do estimate their sales results, and the average of their findings is now at a high level. The average gain in the

MERCHANDISE AWARDS

UNIT COSTS



Award unit costs, in general, have gone up. Current survey data put the average merchandise item cost at \$162, up from \$125 in 1984.

Planning a program often takes more time than the program itself.

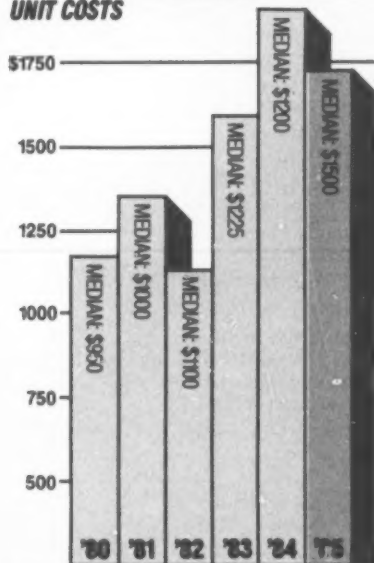
1983 survey was 15.7 percent. The present survey group reports a slightly lower 1983 average, 14.9 percent. But, in 1984, they moved up to 18.2 percent—and for this year, the forecast is 18.7 percent. While the averages are used in this case to give an overview of the entire field, the median also is of interest. For this group of executives, the median reported was only 11 percent in 1983, but in 1984 and 1985, the figure is up to 15 percent.

Neither conducting nor planning a dealer incentive program is easy. But, as the survey shows, the programs are worth the effort when they can achieve better sales results with stable costs and involve a majority of the dealer organizations, as these have in the past two years.

So they'll keep doing it—and more of it, as almost two-thirds of the respondents told IM.

TRAVEL AWARDS

UNIT COSTS



Types of Awards



What to offer and where to get the awards are obvious essentials of incentive programs. There are no right answers, only the right ones for each user in terms of his objective, audience, product and many other factors. But here is a consensus of the choices made by this year's respondents:

What types of awards do you most often use as dealer incentives?
(% of total respondents)

- 44% Single premium or few related items
- 36% Merchandise from incentive firm's catalog
- 20% Own merchandise catalog or selection
- 22% Individual travel awards
- 21% Group trips

Type of merchandise considered most effective:

- 55% Home or family items
- 43% Personal items
- 23% Business-use items

How merchandise premiums are delivered:

- 62% Shipped separately
- 27% Delivered by sales force
- 4% Packed with product

Type of supplier generally used:
Merchandise awards

- 44% Wholesaler or premium jobber
- 41% Direct from manufacturer
- 28% Manufacturers' rep
- 25% Full-service incentive agency

Travel awards

- 53% Make own arrangements
- 37% Full-service incentive agency
- 25% Travel wholesaler
- 11% Travel carrier or hotel